

DRAFT

# MINUTES

June 20, 2024

## Audit Committee

Employee Trust Funds Board  
State of Wisconsin



### Location:

Hill Farms State Office Building – Room N107  
4822 Madison Yards Way, Madison, WI 53705  
8:00 a.m. – 8:53 a.m.

### COMMITTEE MEMBERS PRESENT:

Angela Miller, Chair

Katy Lounsbury, Vice Chair\*

### COMMITTEE MEMBERS ABSENT:

Amy Mizialko, Secretary

### PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

#### Office of Internal Audit (OIA):

Yikchau Sze, Director  
Shellee Bauknecht, Auditor-Advanced  
Michelle Hoehne, Auditor-Advanced\*  
Kurt Petrie, Auditor-Advanced  
Amanda Williams, Auditor-Advanced

#### Office of the Secretary:

John Voelker, Secretary  
Kimberly Schnurr, Board Liaison

#### Wisconsin Deferred Compensation (WDC) Program:

Shelly Schueller, Director

### OTHERS PRESENT:

#### ETF Staff:

Diana Felsmann, Gene Janke, Kadi Mbanefo\*, Marie Ruetten

#### Teachers Retirement Board:

Andrew Moriarity\*

#### Wisconsin State Legislature:

Nathan Heimler\*

Ms. Miller, Chair, called the Audit Committee (Committee) to order at 8:00 a.m.

### CONSIDERATION OF OPEN MINUTES OF MARCH 28, 2024, COMMITTEE MEETING ([Ref. AUD | 06.20.24 | 2A](#))

\* Attended virtually.

Board	Mtg Date	Item #
AUD	09.19.24	2

***MOTION: Ms. Lounsbury moved to approve the open session minutes of the March 28, 2024, meeting as submitted by the Board Liaison. Ms. Miller seconded the motion, which passed unanimously on a voice vote.***

## **INTERNAL AUDIT REPORTS**

### Duty Disability (DD) Program Audit ([Ref. AUD | 06.20.24 | 3A](#))

Mr. Petrie began with some background information on the DD program and its processes, which are managed by the Disability Programs Section of the Benefit Services Bureau within the Division of Benefits Administration. The DD program provides benefits to approximately 1,000 recipients totaling around \$3.3 million each month. Mr. Petrie explained that the audit objective was to review the DD program processes to determine if they were operating efficiently, effectively, and in compliance with the law. The audit focused on DD applications received where a decision was made from January 1, 2022, to September 30, 2023. The audit excluded the financial statement and actuarial valuation report of the DD program and other disability programs like Long-Term Disability Insurance and Disability Annuity under Wis. Stat. § 40.63.

Mr. Petrie stated that, overall, several areas were operating effectively, including staff following well-documented procedures and the use of appropriate secondary reviews.

However, OIA had identified several opportunities for improvement, specifically:

- Ensuring that all DD recipients receive the appropriate annual adjustment.
- Updating certain income offset rules to ensure that the rules are not being exploited.
- Ensuring that the overpayment schedule is consistent across various ranges and that ETF is increasing its monthly collections.
- Working with the Legislature to make statutory changes to make the DD program less complex, less administratively burdensome to implement and maintain, and easier to maintain its integrity.

Ms. Lounsbury expressed concern about the statutory changes recommended in the DD Program Audit. She asked about any modifications to the previous legislative proposal to redesign the DD program and that proposed strategies for legislative support be brought to the full ETF Board for consideration. She said that the Committee and ETF Board should ensure alignment on the vision for the DD program. Mr. Voelker shared that an overview of the DD program had originally been planned for the Joint Meeting of the Retirement Boards later that day, but due to timing constraints, that topic had been pushed back to the September ETF Board meeting.

WDC Program: Contract Compliance ([Ref. AUD | 06.20.24 | 3B1](#)) and Financial Statements ([Ref. AUD | 06.20.24 | 3B2](#)) Audits

Ms. Bauknecht said that both she and Ms. Schueller, the WDC Program Director, had provided the Deferred Compensation Board (DC Board) with a presentation on the “2023 Contract Compliance Audit Results” at the June 6, 2024, meeting ([Ref. DC | 06.06.24 | 4](#)). She explained that this was the first year OIA completed the contract compliance audit for the WDC Program. She said that overall Empower was compliant with most of the compliance requirements of its contract with ETF for administrative services for the WDC Program included in the scope of this audit. OIA’s review resulted in four low- to medium-rated risk findings with recommendations for ETF staff and Empower to improve administration of the WDC Program.

Specifically, Empower should implement a process to ensure records can be provided to ETF to allow for timely monitoring and validation of performance standards and implement a report review process to ensure the Quarterly Service Level Agreement Report is accurate; Empower should implement procedures and controls to ensure required minimum balances in the core investment options are maintained for participants utilizing the self-directed brokerage option. She explained that this recommendation had been made to ensure participant fees could be collected and program materials reflected this information to participants using the self-directed brokerage option. Empower should also determine the cause for an override of a transfer from the Stable Value Fund to a competing investment option and implement process to ensure equity wash requirements are adhered to; lastly, Empower should improve its calculation of over deferral projections to accurately identify participants that are at or near exceeding the maximum contribution limit and provide notification to those participants.

Ms. Bauknecht said that ETF will take the following next steps:

- Continue to monitor Empower’s administration of the WDC, particularly in the areas cited in this audit.
- Seek to jointly address audit recommendations and process improvement considerations with Empower, including potentially adjusting performance standards and contract amendments.
- Provide the DC Board a progress report at the December 2024 meeting summarizing ETF and Empower’s activities related to these audit findings.

Ms. Bauknecht, then, discussed the financial statement audit for the WDC Program by Wipfli, LLP (Wipfli), which had been contracted by the DC Board to conduct the annual financial statement audit of the WDC program for the year ended December 31, 2023. Wipfli issued an unqualified or “clean” opinion, indicating the financial statements are free from material misstatement.

#### Annuity Calculation Limited Review ([Ref. AUD | 06.20.24 | 3C](#))

Ms. Williams discussed the results of the Annuity Calculation Limited Review. The review is performed on a periodic basis in accordance with the FY24-FY25 Biennial Audit Plan to ensure that annuity payments were calculated correctly and were

distributed to the correct individuals in a timely manner. The review period examined annuity benefits calculated between December 2022 and December 2023.

Ms. Williams reported that the review validated all annuity calculations with only two exceptions. In the Automated Retirement Calculations, one of the annuities had an error in the calculation of the age reduction factor. In the Special Death Calculations, OIA found that the money purchase annuity amount for one calculation was off by \$10. Ms. Williams noted that both exceptions did not need an annuity correction since the member received another benefit calculation that was higher. Additionally, the review found that all annuity calculations had a secondary review, and the majority of the calculations were completed in a timely manner, with the exception of a few retirement benefits.

## DISCUSSION AND CONSIDERATION

FY24–FY25 Biennial Audit Plan Update ([Ref. AUD | 06.20.24 | 4A](#))

Ms. Sze summarized the status of FY24 planned engagements and the recommended changes to the FY25 audit plan. She said that of the 12 engagements planned for FY24, seven were completed, and two are on target to complete by June 30, 2024; of the 11 engagements planned for FY25, four are recommended to be postponed and five new engagements to be added.

***MOTION: Ms. Lounsbury moved to approve the recommended changes to the FY25 planned engagements in the FY24–FY25 Biennial Audit Plan. Ms. Miller seconded the motion, which passed unanimously on a voice vote.***

## FUTURE ITEMS FOR DISCUSSION

As Ms. Miller indicated that she would not be available for the December meeting, Ms. Sze stated that the annual review and the approval for both the Audit Committee Charter and the OIA Charter would be included on the September Committee agenda.

## ADJOURNMENT

***MOTION: Ms. Lounsbury moved to adjourn the meeting. Ms. Miller seconded the motion, which passed unanimously on a voice vote.***

The Committee adjourned at 8:53 a.m.

Date Approved: \_\_\_\_\_

Signed: \_\_\_\_\_  
Amy Mizialko, Secretary  
Audit Committee